

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 CIAE-00 COME-00 DODE-00
DOTE-00 FMC-01 INR-07 NSAE-00 CG-00 DLOS-09
OES-07 FEA-01 ERDA-05 AID-05 CEA-01 EPG-02 FPC-01
H-01 INT-05 L-03 NSC-05 OMB-01 PM-04 USIA-06
SP-02 SS-15 STR-04 TRSE-00 ACDA-07 CEQ-01 EPA-01
IO-13 NSF-01 PA-01 PRS-01 NRC-05 /135 W
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R 102254Z MAY 77

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 3421

INFO AMCONSUL MONTREAL

ALL OTHER CANADIAN CONSULS (BY POUCH)

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TAGS: EWWT, ENRG, ETEL, EIND, CA

SUBJECT: MARINE TRANSPORT OF GAS FROM CANADA'S HIGH ARCTIC

REF: (A) OTTAWA 3519; (B) OTTAWA 1834

1. BEGIN SUMMARY. CANADIAN RESOURCE AND SHIPPING INTERESTS ARE DEVELOPING PROPOSALS WITH GOC FOR MARINE TRANSPORT OF GAS FROM HIGH ARCTIC WHICH COULD COMPLEMENT CONSTRUCTION OF THE POLAR GAS PIPELINE PROJECT OR, IF RESERVE LEVELS PROVE TO BE INADEQUATE TO FINANCE A PIPELINE, REPLACE IT ALTOGETHER. LARGE, HEAVY-DUTY COMMERCIAL ICEBREAKING VESSELS (BARGES OR SHIPS) AND SUPPORT FROM CANADIAN COAST GUARD WOULD BE REQUIRED. ONE MAJOR ISSUE FACING GOC, IF IT GOES AHEAD WITH BASIC CONCEPT, WOULD BE WHETHER TO SUBSIDIZE DOMESTIC CONSTRUCTION OF VESSELS AS STIMULUS TO SHIPBUILDING INDUSTRY. OTHER QUESTIONS RELATE TO TELECOMMUNICATIONS AND RADAR COVERAGE OF AREA AND GOC COST RECOVERY FOR
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SERVICES PROVIDED. POSSIBILITIES FOR U.S. PARTICIPATION IN MARINE TRANSPORT SYSTEM APPEAR LIMITED AT PRESENT.
END SUMMARY.

2. PRESS IN RECENT WEEKS HAS REPORTED EXTENSIVE ACTIVITY TO INITIATE ACCELERATED DEVELOPMENT OF HIGH ARCTIC GAS POOLS USING MARINE TRANSPORTATION TO TRANSPORT PRODUCT

TO SOUTHERN CANADIAN MARKETS. VARIOUS GROUPS OF RESOURCE, PIPELINE AND SHIPPING FIRMS HAVE BEEN IDENTIFIED AS ATTEMPTING DEVELOP SPECIFIC PROPOSALS AND INITIATE DISCUSSIONS WITH MINISTRY OF TRANSPORT (MOT) AND OTHER GOC AGENCIES. TANKER PROPOSAL IS NOT INTENDED TO UNDERMINE THE VIABILITY OF POLAR GAS PROJECT. HOWEVER, A LNG TRANSPORTATION SYSTEM COULD PROVIDE PANARCTIC OILS LTD. AND OTHER FIRMS DEVELOPING GAS FIELDS IN THE NORTH WITH CASH FLOW PRIOR TO OPERATION OF A PIPELINE AND DEVELOP ISOLATED RESERVES OF GAS THAT MIGHT NOT OTHERWISE BE DEVELOPED. IT IS ALSO POSSIBLE THAT IF PIPELINE COSTS CONTINUE TO ESCALATE TO A POINT WHERE PROJECT MAY NOT BECOME ECONOMICALLY VIABLE, LNG TANKERS WOULD BE ONLY VIABLE MEANS TO DELIVER GAS TO SOUTHERN MARKETS. TCO HAS RECENTLY REVIEWED STATE OF PLAY WITH SENIOR MARINE OFFICIALS IN MOT WHO CONFIRMED THAT PRELIMINARY PLANNING FOR GAS RELATED ARCTIC MARINE OPERATIONS HAS BEEN PROCEEDING IN HIGH GEAR AT MOT AND ELSEWHERE FOR LAST SEVERAL MONTHS. FOLLOWING IS SUMMARY OF SITUATION AS OUTLINED IN CONVERSATIONS WITH MOT.

3. FOUR DISTINCT MARINE TRANSPORT GROUPS OF COMPANIES ARE PRESENTLY UNDERTAKING FEASIBILITY STUDIES AND PRELIMINARY NEGOTIATIONS WITH GOC AIMED MORE OR LESS AT 1982 AS TARGET DATE FOR COMMENCING OPERATIONS. REALIGNMENTS OF THESE COMPANIES ARE EXPECTED, AS PLANNING DEVELOPS FURTHER, AND INDEED THIS WOULD BE ENCOURAGED BY GOC WHICH VISUALIZES A SINGLE UNDERTAKING EVENTUALLY BEING FORMED IF PLANS MATERIALIZE.

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4. ALL PROPOSALS UNDER DISCUSSION ARE BASED ON CONCEPT OF BARGE-BASED LIQUIFACTION PLANT (AND SUPPORTING ENVIRONMENT) BEING TOWED TO COMPRESSION SITE, FOR LOCAL HOOK-UP AND OPERATION, AND POSSIBLE EVENTUAL MOVEMENT TO ANOTHER LOCATION. DELIVERY OF PRODUCT SOUTH WOULD BE VIA ICE-BREAKING LNG CARRIER, BARGES OR SHIPS. MOST OBVIOUS LOCATIONS FOR SOUTHERN TERMINAL ARE NEAR SAINT JOHN, NEW BRUNSWICK (AT LORNEVILLE WHERE TENNECO IS PROPOSING TO LOCATE AN LNG TERMINAL FOR U.S. SUPPLY) OR IN THE ST. LAWRENCE RIVER BELOW QUEBEC CITY (POSSIBLY NEAR RIVIERE DU LOUP) WHERE WATER DEPTHS ARE SUITABLE AND THERE WOULD BE DIRECT ACCESS TO THE TRANS CANADA PIPE LINE. ALL VESSELS USED IN THE UNDERTAKING WOULD BE CANADIAN-FLAG AND GOC WOULD BE INVOLVED IN PROJECT, DIRECTLY OR INDIRECTLY, TO CONSIDERABLE EXTENT.

5. POLICY QUESTIONS FACING GOC INCLUDE ICEBREAKING REQUIREMENTS, SHIPBUILDING SUBSIDIES, NAVAIID AND

COMMUNICATIONS FACILITIES, AND COST RECOVERY.

(A) ICEBREAKING: THERE IS AGREEMENT AMONG EXPERTS THAT CLASS 10 ICEBREAKING CAPACITY WILL BE NEEDED IN WATERS NEAR KING CHRISTIAN ISLAND, BUT THAT LOWER CLASSES WILL SUFFICE FURTHER SOUTH. AMONG QUESTIONS BEING STUDIED ARE WHETHER VERY EXPENSIVE CLASS 10 ICEBREAKING LNG VESSELS ARE NECESSARY FOR TOTAL ROUTE OR WHETHER A COMBINATION OF STRENGTHS IS POSSIBLE. IF LARGE SHIPS ARE USED TO TRANSPORT GAS, IT WOULD HAVE TO BE CLASS 10 ALL THE WAY AS TRANS-SHIPMENT WOULD NOT BE FEASIBLE. HOWEVER, USE OF BARGES WOULD PROVIDE FLEXIBILITY; BARGES WOULD HAVE TO BE CLASS 10, BUT TUGS OF THIS STRENGTH WOULD ONLY BE REQUIRED IN THICKEST ICE AND TASK COULD BE TURNED OVER TO CLASS 4

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CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 CEQ-01
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TUGS ONCE THIS AREA HAD BEEN CLEARED.

(B) IN ADDITION TO OPERATIONAL VESSELS, COAST GUARD ICEBREAKING SUPPORT WILL BE REQUIRED TO PROVIDE ASSISTANCE AND ASSURE SAFETY IN ICE FIELDS. GOC'S PLANS FOR BUILDING HEAVY POLAR ICEBREAKER ARE AT EVALUATION-OF-BIDS STAGE FOR NUCLEAR POWER PLANT (SEE OTTAWA 2241, AND PREVIOUS). EARLIEST OPERATIONAL DATE FOR A NUCLEAR VESSEL WOULD BE 1984. WITH CONVENTIONAL POWER PLANT THIS POLAR ICE-BREAKER COULD BE OPERATIONAL IN 1982. MOT HAS STRONG

PREFERENCE FOR NUCLEAR POWER PLANT AND THUS COULD FACE
DIFFICULT DECISION IF IT WISHED TO DOVETAIL ENTRY INTO
OPERATION OF ICEBREAKER WITH PRESENT INDUSTRY THINKING
RE GAS TRANSPORT IN 1982.

(C) SHIPBUILDING: "DEPRESSED" CANADIAN SHIPBUILDING
INDUSTRY IS EXERTING STRONG PRESSURE TO REQUIRE THAT ALL
VESSELS FOR NORTHERN GAS TRANSPORTATION BE BUILT IN
CANADA AND THAT GOC SUBSIDIZE DIFFERENCE BETWEEN DOMESTIC
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AND FOREIGN CONSTRUCTION. ALL PROPOSED OPERATORS ARE
WILLING TO BUILD DOMESTIC IF SUBSIDY IS PROVIDED BUT
MAJOR MODERNIZATION AND EXPANSIONS OF YARDS WOULD BE
NECESSARY AND DECISION ON THIS ASPECT WOULD NEED TO BE
TAKEN IN 1977, IF DOMESTIC SUPPLY WERE TO BECOME PART OF
PACKAGE FOR 1982.

(D) NAVAIDS/COMMUNICATIONS: EXTENSIVE PLANNING HAS
ALREADY TAKEN PLACE AS TO WHAT NAVAIDS WOULD BE REQUIRED
FOR THE ARCTIC WATERS INVOLVED. THEY COULD BE PURCHASED
AND PUT IN PLACE RELATIVELY QUICKLY ONCE DECISIONS WERE
TAKEN TO GO AHEAD. RADIO COMMUNICATIONS IN THE AREA ARE
NOT ADEQUATE, HOWEVER, AND WOULD HAVE TO BE SIGNIFICANTLY
UP-GRADED. THERE IS INTEREST IN A SATELLITE-BASED
SYSTEM. INMARSAT LOOKS MOST PROMISING, BUT MAY NOT BE
ACTIVE EARLY ENOUGH. FURTHERMORE, IN VIEW CRITICAL
IMPORTANCE THAT LOCATION AND NAVIGATION CONDITIONS OF ALL
VESSELS BE CONSTANTLY KNOWN, OFFICIALS ARE UNHAPPY WITH
IDEA OF RELYING PRIMARILY ON RADIO CONTACT. SATELLITE
RADAR COVERAGE WOULD BE VERY DESIRABLE AND THERE IS A LOT
OF INTEREST IN THE U.S. SEASAT PROGRAM, BUT THE TIMING
AGAIN MAY BE A PROBLEM.

(E) COST RECOVERY: ALTHOUGH PERHAPS CHEAPER THAN PIPELINE,
MARINE TRANSPORT SYSTEM WILL STILL BE HIGH COST. MANY
EXPENDITURES WILL BE DIRECTLY BORNE BY PRIVATE INVESTORS
(POSSIBLY WITH DIRECT SUBSIDY OF DOMESTIC SHIP
CONSTRUCTION). OTHERS--SUCH AS ICEBREAKING SUPPORT,
NAVAIDS, AND COMMUNICATIONS FACILITIES--WILL BE BIG
TICKET GOVERNMENT EXPENDITURES AND GOC INTENDS THAT
SIGNIFICANT PORTION OF THESE COSTS WILL BE RECOVERED FROM
COMMERCIAL USERS OF SYSTEM ALTHOUGH IT DOES NOT YET HAVE
A SPECIFIC TARGET IN MIND.

(F) COOPERATION WITH U.S. INTERESTS: ALL PRESENTLY
INVOLVED MARINE INTERESTS ARE CANADIAN WITH EXCEPTION OF
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CROWLEY MARITIME CORPORATION, A SAN FRANCISCO-BASED, OCEAN-GOING, TUG OPERATION WHICH IS MEMBER OF ONE OF THE FOUR GROUPS PREPARING TRANSPORT PROPOSALS, AND THERE HAS BEEN NO SUGGESTION FROM EITHER GOVERNMENT OR INDUSTRY TO BROADEN SCOPE TO INCLUDE OTHER U.S. OR OTHER FOREIGN PARTICIPANTS. AS DEPARTMENT IS AWARE, SEVERAL POTENTIAL FOREIGN SUPPLIERS, INCLUDING THE BABCOCK AND WILCOX NEWPORT NEWS SHIPBUILDING CONSORTIUM, ARE DEVELOPING PROPOSALS FOR A NUCLEAR POWERED ICEBREAKER. APART FROM THIS, MOT SOURCES INDICATE THERE ARE NO PLANS AT THIS STAGE TO SEEK FURTHER U.S. OR OTHER FOREIGN PARTICIPATION IN ARCTIC MARINE TRANSPORT SYSTEM.

6. COMMENT: GAS DELIVERED BY MARINE MODE WOULD BE HIGH COST EVEN IF MARINE TRANSPORT IS CHEAPER THAN PIPELINE. LOWEST FIGURE WE HAVE HEARD FROM ENERGY, MINES AND RESOURCE SOURCE IS \$4.00 PER MCF, CONSIDERABLY ABOVE PRESENT AND PROJECTED OTHER CANADIAN PRICES. ENDERS

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